



JOHN CHIANG
California State Controller

December 10, 2007

The Honorable Denise Moreno Ducheny, Chair
Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, CA 95814

Re: Annual Report to the Legislature on Unclaimed Property Audits

Dear Senator Ducheny and Joint Legislative Budget Committee Members:

The 2006-07 Budget Act approved 15 new auditor positions for the State Controller's Office (SCO) to expand its efforts to audit companies holding unclaimed property belonging to California citizens. Supplemental reporting language requires the SCO submit an annual report to the Joint Legislative Budget Committee containing information about SCO unclaimed property audits conducted in the prior fiscal year. The annual report must contain the following information.

- Number of unclaimed property audits conducted, broken out by industry type;
- Summary of unclaimed property audit findings, broken out by industry type;
- Amount of unclaimed property audit collections;
- Number of individuals reunited with their property; and
- Amount the department disbursed to property owners.

The SCO is responsible for determining compliance with the State's Unclaimed Property Law and Regulations. The law and regulations provide that unclaimed property is escheatable to the State, and the statutes give custody and the benefits of the use of the property to the State until the rightful owner claims the property. The SCO performs in-state audits. Third-party contractors perform out-of-state audits for the SCO. Their audits are not a part of this report.

The SCO respectfully submits the following information for fiscal year (FY) 2006-07:

- 1. Number of unclaimed property audits conducted, broken out by industry type:** In fiscal year 2006-07, the SCO initiated 50 audits, completed 19 audits, and had 35 audits in progress at year-end in the following 23 industries:

Industry	Audits Initiated	Audits Completed	Audits in Progress
Advertising	2	—	2
Agriculture/grower	1	—	1
Auto dealership ¹	22	8	14
Computer hardware	1	—	1
Construction	4	1	3
Cookie and cracker manufacturing	1	—	1
Direct marketing service	1	—	1
Electronics	1	—	1
Escrow	2	1	1
Financial	1	—	—
Food and beverage distributor	1	—	1
Freight transportation	1	—	1
Hospital	—	2	2
Insurance	2	1	1
Machinery manufacturing	1	1	—
Mobile equipment manufacturing	1	1	—
Mobile wireless provider	1	—	1
Real estate developer	1	—	1
Retailer	1	—	1
Technology	1	—	1
Title company	—	1	—
University	3	2	1
Utility	1	1	—
Totals	<u>50</u>	<u>19</u> ²	<u>35</u>

¹ There are over 4,800 auto dealerships in California. The SCO estimated that only 5% of these dealerships were submitting unclaimed property reports.

² Includes four audits initiated prior to FY 2006-07.

- 2. Summary of unclaimed property audit findings, broken out by industry type:** The SCO completed 19 audits during FY 2006-07 and identified \$11,891,677 in escheatable property. The following is a breakdown of the audit findings by the respective industry type:

Industry	FY 2006-07 Audit Findings
Auto Dealership	\$ 296,911
Construction	2,834
Escrow	138,684
Hospital	300,719
Insurance	90,734
Title Company	3,827,145
University	74,375
Utility	<u>7,160,275</u>
Total findings	<u>\$ 11,891,677</u>

- 3. Amount of unclaimed property audit collections:** During FY 2006-07, the SCO collected \$1,356,301 in unclaimed property and interest for the audits completed in fiscal years 2005-06 and 2006-07. This total includes \$57,771 in unclaimed property that was submitted by holders during the fiscal year for audits in progress.

	Amount of Unclaimed Property Collected	Interest Collected ¹	Totals
Audits completed in FY 2005-06	\$ 161,498	\$ 19,723	\$ 181,221
Audits completed in FY 2006-07	649,034	468,275	1,117,309
Audits in progress in FY 2006-07	57,771	0	57,771
Total	<u>\$ 868,303</u>	<u>\$ 487,998</u>	<u>\$ 1,356,301</u>

¹ Pursuant to CCP Section 1577 of the California Unclaimed Property Law, interest is charged to the holder at the rate of 12% per annum on the unclaimed property from the date the property should have been reported or paid or delivered.

On June 1, 2007, the United States District Court issued a preliminary injunction prohibiting the State Controller's Office from accepting, taking title to, or possessing any property including, but not limited to, cash, securities, and contents of safe-deposit boxes. The State Controller's Office ceased to collect any property, including unclaimed property audit collections, after May 31, 2007. The preliminary injunction was lifted on October 18, 2007. However, under new legislation (Senate Bill 86), all holders will be required to submit a report of unclaimed property owners to allow the SCO to send notices to owners before the property is remitted or transferred to the SCO.

- 4. Number of individuals (owners) reunited with their property/Amount the department has disbursed to property owners:** As the result of the SCO's audits, 99 property owners were reunited with their property for audits completed during FY 2006-07. Additionally, the SCO has 11 property-owner claims in the amount of \$15,306 that are pending return to owners for audits completed during FY 2006-07. Property was returned to the owners either by the audited holders or by the SCO. The SCO allowed the holders an opportunity to voluntarily return unclaimed property to the owners before completing the audit. Any unclaimed property not returned by the holders became escheatable property. Owners could then recover the escheated property through the SCO's claim process.

As a result of unclaimed property identified through the SCO's audits, \$148,396 in property was disbursed to property owners in FY 2006-07.

	Number	Amount
Property reunited with owners by holders	75	\$ 136,794
Property reunited with owners by SCO	24	11,602
Totals	<u>99</u>	<u>\$ 148,396</u>

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If you have any questions regarding this information, please call Jeffrey V. Brownfield, Chief, Division of Audits, at (916) 324-1696.

Sincerely,

Original signed by

MICHAEL CARTER
Chief Operating Officer

MC/wm

Re: S08-UCP-500

cc: Joint Legislative Budget Committee Members
Michael C. Genest, Director
Department of Finance
Veronica Chung Ng, Program Budget Manager
Department of Finance
Michael Cohen, Director
State Administration, Legislative Analyst's Office
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